



WENDY L. WATANABE  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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January 28, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Here for*  
Auditor-Controller

SUBJECT: **HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A  
RESIDENTIALLY BASED SERVICES PROGRAM PROVIDER –  
CONTRACT COMPLIANCE REVIEW**

We completed a review of Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency), which covered a sample of expenditure transactions from Program Year (PY) 2011-12 (December 2, 2011 to December 1, 2012). The Department of Children and Family Services (DCFS) contracts with Hathaway-Sycamores to provide the Residentially Based Services (RBS) Program to children placed in Rate Classification Level 12 or 14 Group Homes, and their families environmentally based interventions, including intensive mental health treatments, family finding, and the Wraparound Approach Services to shorten their stay in Group Homes and obtain permanency. The RBS Program is a two-year pilot demonstration project with the California Department of Social Services (CDSS) in conjunction with their RBS Reform Project.

The purpose of our review was to determine whether Hathaway-Sycamores' RBS Program expenditures were allowable and reasonable in providing necessary care and program services. We also evaluated the adequacy of the Agency's financial records, internal controls, and their compliance with the contract and applicable guidelines.

DCFS paid Hathaway-Sycamores approximately \$2.2 million for PY 2011-12. Hathaway-Sycamores provides services in the Fifth Supervisorial District.

### **Results of Review**

Hathaway-Sycamores recorded and deposited DCFS payments timely, and prepared its Cost Allocation Plan (Plan) in compliance with their County contract. However, the Agency did not always comply with the County contract requirements. Specifically, Hathaway-Sycamores:

- Inappropriately allocated their shared costs totaling \$452,690 to the RBS Program during the second half of the Program Year from July to December 2012 by using a projected amount as total shared costs instead of using the actual shared cost reported in their financial records.
- Used pre-determined rates to charge shared payroll costs totaling \$5,292 to the RBS Program, instead of a documented time study or actual time worked by the employees on each program. As a result, the Agency's direct payroll costs were not supported, and the indirect costs rates derived from the Program's direct payroll costs were not supported as required by the County contract. We noted a similar finding during our prior review.
- Did not reconcile the salary expenditures reported on their PY 2011-12 Semi-Annual Cost Reports to their accounting records. As a result, the salary expenditures reported on the cost report exceeded the amounts reported in their financial records.

After our review, Hathaway-Sycamores re-allocated its shared costs reported in their financial records, based on their direct payroll costs supported with actual time studies, and submitted their revised June and December 2012 Semi-Annual Cost Reports to DCFS. Based on the revised Cost Reports, there are no questioned costs remaining.

*Hathaway-Sycamores' attached response indicates that they will ensure that their payroll costs charged to the RBS Program based on time studies, and that Program costs are reconciled and supported by their financial records.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with Hathaway-Sycamores and DCFS. Hathaway-Sycamores' attached response indicates that they agree with our findings and recommendations. DCFS will work with Hathaway-Sycamores management to ensure that our recommendations are implemented.

We thank Hathaway-Sycamores management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:EB:sk

Attachment

c: William T Fujioka, Chief Executive Officer  
Philip L. Browning, Director, Department of Children and Family Services  
Renee LaBran, Board Chair, Hathaway-Sycamores  
William Martone, Executive Director, Hathaway-Sycamores  
Public Information Office  
Audit Committee

**HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES  
RESIDENTIALLY BASED SERVICES PROGRAM  
CONTRACT COMPLIANCE REVIEW  
PROGRAM YEAR 2011-12**

**CASH/REVENUE**

**Objective**

Determine whether Hathaway-Sycamores Child and Family Services (Hathaway-Sycamores or Agency) recorded revenue in their financial records properly, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed Agency personnel, and reviewed the Agency's financial records and November 2012 bank reconciliations.

**Results**

Hathaway-Sycamores recorded revenue in their financial records properly, deposited their Residentially Based Services (RBS) payments timely, and Agency management reviewed and approved bank reconciliations timely.

**Recommendation**

**None.**

**EXPENDITURES**

**Objective**

Determine whether Hathaway-Sycamores' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the RBS Program were allowable, properly documented, and accurately billed.

**Verification**

We reviewed the Agency's Plan and its financial records for 32 non-payroll expenditures, totaling \$32,996, charged to the RBS Program from Program Year (PY) 2011-12 (December 2, 2011 to December 1, 2012). We also interviewed Agency personnel.

**Results**

Hathaway-Sycamores generally billed the RBS Program for allowable and properly documented expenditures, and prepared their Plan in compliance with their County contract requirements. However, the Agency inappropriately allocated their shared costs to the RBS Program using the projected amounts of total shared costs instead of the actual costs reported in their financial records. As indicated in the Payroll and Personnel section below, Hathaway-Sycamores also inappropriately used pre-determined rates to charge the shared staff's payroll costs to the RBS Program. We noted a similar finding during our prior review.

After our review, Hathaway-Sycamores re-allocated their actual shared costs reported in their financial records, based on the direct payroll costs supported with actual time studies, and submitted the revised Semi-Annual Expenditure Reports for PY 2011-12.

**Recommendations****Hathaway-Sycamores Child and Family Services management:**

- 1. Ensure that the Residentially Based Services Program shared expenditures are supported with adequate documentation.**
- 2. Use actual costs instead of projected costs to allocate to the Residentially Based Services Program.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether Hathaway-Sycamores' fixed assets and equipment purchased with RBS funds were used for the Program and adequately safeguarded.

We did not perform testwork in this area as the Agency did not purchase any fixed assets and equipment with RBS funds.

**Recommendation**

**None.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether Hathaway-Sycamores appropriately charged payroll costs to the RBS Program and maintained personnel files as required.

**Verification**

We traced the payroll expenditures for 15 employees, totaling \$39,187 for November 2012, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed the 15 employees' personnel files.

**Results**

Hathaway-Sycamores maintained their personnel files as required by their County contract. However, the Agency did not maintain documentation to support payroll costs of \$5,292 charged to the RBS Program in November 2012. Hathaway-Sycamores management indicated that the payroll costs were charged based on pre-determined budgeted percentages. As stated in Section B.3.1 of the Auditor-Controller Contract Accounting and Administration Handbook, time estimates do not qualify as support for payroll expenditures and will be disallowed on audit.

After our review, Hathaway-Sycamores re-allocated all shared staff's payroll costs charged to the RBS Program from January through December 2012, based on their time studies, and submitted their revised June and December 2012 Semi-Annual Cost Reports to the Department of Children and Family Services.

**Recommendation**

3. **Hathaway-Sycamores Child and Family Services management ensure that employees record actual hours worked per program per day.**

**SEMI-ANNUAL EXPENDITURE REPORT****Objective**

Determine whether the Agency's PY 2011-12 RBS Semi-Annual Expenditure Reports reconciled to the Agency's financial records.

**Verification**

We compared the Agency's RBS Semi-Annual Expenditure Reports to their financial records. We also reviewed a sample of RBS Program expenditures incurred in PY 2011-12.

**Results**

Hathaway-Sycamores' Semi-Annual Expenditure Reports did not reconcile to their financial records. Specifically, the RBS Program salaries did not reconcile to Hathaway-Sycamores' financial records. Agency management indicated that their RBS costs did

not reconcile with their records because the Agency made adjustments that the records did not reflect.

After our review, Hathaway-Sycamores submitted revised Semi-Annual Expenditure Reports that reconciled to their financial records.

**Recommendation**

- 4. Hathaway-Sycamores Child and Family Services management ensure that Residentially Based Services Program costs are reconciled and supported with their financial records.**



December 19, 2013

Wendy L. Watanabe  
Auditor-Controller

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350 S. Figueroa Street, 8<sup>th</sup> Floor  
Los Angeles, CA 90071

**RE: Response to- HATHAWAY-SYCAMORES CHILD AND FAMILY SERVICES – A  
RESIDENTIALLY BASED SERVICES (RBS) PROGRAM PROVIDER – CONTRACT  
COMPLIANCE REVIEW - PROGRAM YEAR 2011-12**

Dear Ms. Kim,

I am writing in response to the **RESIDENTIALLY BASED SERVICES (RBS) PROGRAM  
PROVIDER – CONTRACT COMPLIANCE REVIEW - PROGRAM YEAR 2011-12.**

We thank you and your staff for the feedback we received during the auditing process.

Attached please find our response to the recommendations provided by the County.

If you have any questions or need additional information, please feel free to contact me at (626) 395-  
7100 ext. 2501

Sincerely,

William Martone  
President & CEO



**Contract Compliance Review  
Program Year 2011-12**

**CASH/REVENUE**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None Required.

**EXPENDITURES**

**Recommendation**

1. Ensure that the Residentially Based Services Program expenditures are supported with adequate supporting documentation.
2. Use actual costs instead of projected costs to charge the Residentially Based Services Program.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores has re-allocated the actual shared costs reported in the financial record, based on the direct payroll costs, supported with actual time studies, and submitted revised June and December 2012 Cost Reports, as indicated in the audit findings. Going forward, payroll costs charged to the RBS Program will be based on the time studies, as agreed with the County Department of Auditor-Controller.

**FIXED ASSETS AND EQUIPMENT**

**Recommendation**

None.

**Hathaway-Sycamores Response**

- None Required.

**PAYROLL AND PERSONNEL**

**Recommendation**

3. Hathaway-Sycamores management ensure that employees record actual hours worked per program per day.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores has restated all shared staff's payroll costs charged to the RBS Program from January through December 2012, based on the time studies, and submitted revised June and December 2012 Cost Reports to DCFS as indicated in the audit findings. Going forward, payroll costs charged to the RBS Program will be based on the time studies, as agreed with the County Department of Auditor-Controller. A training update on how to complete the time study will be conducted.

**COST REPORTS**

**Recommendation**

4. Hathaway-Sycamores management ensure that Program costs are reconciled and supported with their financial records.

**Hathaway-Sycamores Response**

- Hathaway-Sycamores has submitted revised June and December 2012 Cost Reports, which reconcile to the financial records as indicated in the audit findings. Going forward, Hathaway-Sycamores management will ensure that Program costs are reconciled with and supported by the financial records.